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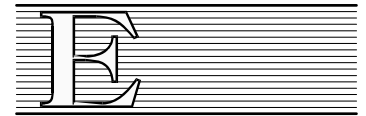
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**Accelerating Africa's Growth and Development to meet the MDGs:
*Emerging Challenges and the way forward***

An Issues Paper



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Acronyms

AfDB	African Development Bank
AIDS	Acquired Immune Deficiency Syndrome
APRM	African Peer Review Mechanism
AU	African Union
AUA	African Union Assembly
AUC	African Union Commission
BWI	Bretton Woods Institutions
CAADP	Comprehensive African Agricultural Development Programme
CAMEF	(AU) Conference of Ministers of Economy and Finance
CfA	United Kingdom Commission for Africa
ECA	Economic Commission for Africa
EU	European Union
FASDEV	Forum for African Statistical Development
FDI	Foreign Direct Investment
FEPA	(Nigerian) Federal Environmental Protection Agency
GDP	Gross Domestic Product
GNI	Gross National Income
GSM	Global System for Mobile Communication
HIPC	Highly Indebted Poor Countries Initiative
HIV	Human Immune-deficiency Virus
IFDC	International Centre for Soil Fertility and Agricultural Development
IFF	International Financing Facility
MDG	Millennium Development Goal
MDGR	Millennium Development Goals Report
MDRI	Multilateral Debt Relief Initiative
NEPAD	New Partnership for Africa's Development
NPV	Net Present Value
ODA	Overseas Development Assistance
OECD	Organization for Economic Cooperation and Development
PAF	Poverty Action Fund
PASDEP	Programme for Accelerated and Sustained Development to End Poverty
PPP	Public-Private Partnership
PRGF	Poverty Reduction and Growth Facility
PRS	Poverty Reduction Strategy
PRSP	Poverty Reduction Strategy Paper
PRSP-LG	Learning Group on the Poverty Reduction Strategy Paper
UK	United Kingdom
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNMP	United Nations Millennium Project
RBA	Regional Bureau for Africa
REC	Regional Economic Community
SSA	Sub-Saharan Africa
TB	Tuberculosis

EXECUTIVE SUMMARY

Introduction

1. September 2007 will mark the midpoint on the road to 2015, the date for achieving the Millennium Declaration Goals (MDGs). Adopted by world leaders at the United Nations Millennium Summit in 2000 as part of the Millennium Declaration, the MDGs are time-bound goals and targets that represent the international community's commitment to reduce extreme poverty in half and improve key indicators of human development by 2015 relative to their 1990 levels. This midpoint will be a powerful reminder to African governments and their development partners that time is fast running out and that the date of international commitment to meet the MDGs through needed investments and policies will soon be past.

2. Recent assessments, including the assessment prepared for this Conference, indicate that Africa is at risk of not achieving the goals by the target date. Hence, if Africa is to sustain (and step up) its current positive economic growth performance and improvements in governance in order to meet the MDGs, it will need to overcome significant economic, social, human and environmental challenges. These challenges arise from the continent's history, political economy, geography, and relationships among the countries and with the wider international community.

3. While there is consensus in some areas regarding the possible causes and consequences of the continent's slow progress, there remain many areas where consensus is yet to emerge and which continue to provoke significant policy and analytical debate. One such area is the set or mix of interventions that African countries need to adopt and implement in order to accelerate growth and development to achieve the Goals.

4. This background and issues paper is prepared for the 2007 United Nations Economic Commission for Africa (UNECA) Conference of African Ministers of Finance, Planning and Economic Development¹. Its purpose is two-fold: first, to surface and spell out some of the emerging challenges to accelerating growth and development to meet the MDGs in Africa; and second, to propose options for debate and consideration by Ministers, agreement on which will map out a way forward for scaling up interventions to accelerate growth and development to meet the MDGs in the region.

5. The paper builds on previous studies, reports and Ministerial conferences that have examined options for accelerating the continent's progress towards the MDGs. These include the "African Common Position on the MDGs" prepared by ECA and the African Union Commission (AUC); the report of the UK Commission for Africa (CfA); and the UN Millennium Project report "Investing in Development", which laid out a set of actions, including some "quick wins". Furthermore, the 2005 ECA Conference of Ministers on the theme "PRSPs, the MDGs, and Mutual Accountability" recommended that countries strongly align their PRSPs to the MDGs, a recommendation echoed in the Outcome Statement of the March 2006, "African Plenary on Poverty Reduction Strategies and the Millennium Development Goals" jointly organized by ECA and AUC in Cairo, Egypt. The recommendation is also echoed in the Ministerial Statement of the 2006 ECA Conference of Ministers in Ouagadougou, Burkina Faso as well as in the May 2006, African Ministerial Conference on "Financing for Development", in Abuja, Nigeria.

¹ Hereafter, Ministers.

- *Progress is being made towards the MDGs, but the pace is slow*

6. The aggregate scorecard on the MDGs in Africa clearly shows that, currently, less than a score of countries in the region are on track to meeting a significant number of the goals. The strong performers are mostly in the North Africa region. However, the picture is not all that bleak as there have been some positive developments in recent years which give hope that the challenge of meeting the MDGs in the continent is not insurmountable, if both national and international policy measures are scaled up in a number of the critical areas.

7. Encouragingly, there continues to be broad and sustained commitment to the MDG agenda, particularly at the highest decision-making levels in the region. AU has placed the MDGs at the centre of the New Partnership for Africa's Development (NEPAD) vision and concretely expressed its commitment to facilitating acceleration of progress towards them through the adoption of a Common Position at its 2005 Summit. In 2005, the AU Assembly (AUA) requested AUC in collaboration with ECA, AfDB, etc., to monitor achievement of the MDGs in Africa and to report outcomes to AUA. Further, AU reiterated its commitment to the MDGs at its 2006 Banjul Summit, reinforcing it by recommending concrete measures for scaling up efforts to meet the goals. Finally, Africa's Ministers of Finance, Economic Planning and Development as well as the key Sector Ministries have consistently placed the MDGs at the centre of their Conferences and Meetings, particularly since 2005.

8. African leaders are also signatories to the Outcome Document of the 2005 UN World Summit, which resolved that countries with extreme poverty adopt, and implement MDG-based PRSPs or MDG-based national development plans, by end 2006. Two years on, some measurable progress has been made in this regard. The prospects and possibilities of quick-impact initiatives such as free malaria nets distribution, food subsidies for education, etc., are gaining renewed currency as countries adopting them register advances in several MDGs. Given this factor, there is a compelling need to scale up these interventions within a planning framework, to accelerate the growth and development required for achieving the MDGs in Africa. Significant challenges have to be overcome or at least attenuated.

- *Challenges*

9. Recently, many African countries have been growing at more than 5 per cent per annum. However, many show smaller or negative growth rates. Hence, the most critical challenge for many countries is facilitating growth and sustaining enhanced growth. Raising agricultural productivity and transforming the rural sector have been, and remain, major challenges to most African countries since independence. Low levels of agricultural development further poverty, hunger, and poor health status, all of which increases vulnerability to HIV/AIDS and other diseases. Overcoming this challenge will require a substantial scaling up of interventions in the input, output, and export markets.

10. Climate change is another challenge. Currently, climate variability is adversely affecting growth including in agriculture and manufacturing (through its impact on hydro-electric dams, among others). The challenge of managing climate change and the likely impact of failure in this area on progress towards the MDGs are increasingly being appreciated. Derived from the challenge of climate change is a looming water crisis requiring urgent attention. Water is a fundamental input into the achievement of all the other MDGs. Lack of access to safe water affects sanitation and hygiene and is an important contributor to high mortality among children and the elderly.

11. Other challenges include employment creation and the associated issue of rising inequality, fast social transformation especially growing urbanization, and the persistent problem of gender inequality. The MDGs on gender equality and maternal health are of special concern. While many countries have made some progress towards the official MDG target of improving gender parity in education, overall levels remain low, especially at higher levels of education.

12. Another group of challenges relates to scaling up financing and public sector investments to address critical growth bottlenecks. With respect to mobilizing financing for public sector investments and MDG-related expenditures, although debt relief has provided additional resources for scaling up MDG-related expenditures, it still falls far short of the needs of the continent. Foreign direct investment (FDI) and Overseas Development Assistance (ODA) are increasing as is the effort of African countries to increase domestic resource mobilization and assistance from countries such as China and India.

13. The poor state of infrastructure in Africa is a major impediment to domestic market and regional integration, to equitable access to social services, and therefore to growth. Related to this, is the complementary and fundamental challenge of scaling up investments in human capacities/capital. Education, health, water and sanitation, and social protection are critical for building up a country's stock of human capital and for achieving the MDGs. However, until recently, investment in these areas in many African countries has been falling.

14. A final cluster of challenges relates to planning, policy environment, monitoring and tracking performance. Countries face the challenge of preparing and implementing a MDG-based planning framework consistent with the resolution in the Outcome Document of the 2005 UN World Summit. Related to this is the challenge of better management of the emergent policy and fiscal space that countries now have as a result of debt relief, increasing/stable commodity prices, rise in ODA and intensified domestic resource mobilization efforts. In addition, very many countries continue to have difficulties with providing improved data for monitoring and tracking of progress, tracking MDG-relevant expenditures, and for decision-making.

15. Finally, ensuring peace and security is crucial to effective harnessing of globalization and of domestic and international partnerships for growth and development.

- *Way Forward and Issues for Discussion*

16. African countries face a menu of policies and actions that they can use to accelerate growth and development to achieve the MDGs. Ministers and their Experts are invited to debate and consider these issues and to adopt a plan of action on the way forward.

17. In the areas of growth, employment and inequality, the following issues have been identified for discussion:

- How ambitious have national development plans for achieving the MDGs in Africa become and what should Ministers do if they are not? How coherent are the plans?
- What can countries do to improve statistics for planning, strategic decision-making, monitoring and evaluation? Should countries focus their efforts on improving measurement of a small set of priority indicators?

- What specific policies, programmes and projects should countries adopt as the minimal essential components of a scaled up agenda? How will these be paid for?
- What set of incentives/policies should Ministers adopt to encourage industrial and agricultural diversification, and scaled up harnessing of science and technology by the private sector?
- What financing mechanisms should countries consider to increase the provision of regional infrastructure, which is essential for the regional integration market as identified in the NEPAD Short-Term Action Plan for Infrastructure, and for the management of trans-boundary resources such as water and other regional public goods such as infectious disease control?
- How feasible is land policy reform in general and land redistribution in Africa and is it critically important for accelerating growth and development in the region?

18. Issues identified for discussion in the area of mobilizing financing for accelerating growth and development to achieve the MDGs in Africa include:

- What is the scope for public-private partnerships (PPP) and private financing of development projects in Africa? What incentives should Ministers adopt to spur private financing of development projects? How should these be priced to limit their adverse effects on the poor?
- What possible new domestic financing mechanisms (e.g. infrastructure bonds) can countries consider to finance critical interventions necessary for scaling up for success?
- What measures (e.g. banking sector consolidation, mobile banking and micro-finance networks) including incentives (tax and interest rate), should countries adopt to increase the domestic resource mobilization that is essential for expanding fiscal space?

19. Further, with respect to Governance, Institutional Innovations, Peace and Security, Ministers and Experts are invited to discuss the following issues:

- What is the scope for fiscal decentralization/federalism to contribute to accelerating growth and development to meet the MDGs? How can sub-national units be harnessed?
- How can the contribution of the private sector and other non-governmental actors be enhanced?
- What is the scope for social transfer programmes in Africa and what are the possible financing implications?
- What improvements can countries make to improve the effectiveness of institutions for tracking and monitoring MDG-related expenditures?
- How useful are the APRM and the annual MDGs reports for galvanizing public action in support of the MDGs? What more can be done?
- Given the growing concerns about funding for the APRM process, can the mainstreaming of APRM indicators enhance the credibility of the Mechanism as an important adjunct to the MDGs?
- What is the scope for fiscal decentralization (fiscal federalism) for contributing to harmonized efforts to scale up efforts to meet the MDGs?

- Can enhanced transparency and accountability in public sector financial management reduce conflicts, and thus help to create an atmosphere conducive to economic growth and acceleration of progress towards the MDGs?

20. Finally, on partnerships and fulfilling commitments, the issues identified for discussion include:

- How can African countries ensure that the principles and indicators of the Paris Declaration are operationalized?
- How can the international community be encouraged to fulfill the commitments it has made to Africa including the commitments of 2005?
- What role should ECA, AUC, AfDB and regional economic communities (RECs) play in mobilizing international action to scale up interventions to meet the MDGs?
- *Conclusion*

21. The pre-condition for scaling up interventions to accelerate growth and development in Africa in order to achieve the MDGs is committed leadership and political will; the will to diligently and efficiently implement policies and strategies that are already on the books, to find new solutions to perennial and emerging problems and to consider new possibilities. In this regard, the State is critical. It has the responsibility to ensure that resources are efficiently allocated, especially funding for anchor investments such as infrastructure. In the final analysis, success in achieving the MDGs depends on a shared national and international ambition, steered by a committed leadership, to improve the life-chances of the most vulnerable in society.

A. Introduction

22. September 2007 will mark the midpoint on the road to 2015, the date for achieving the Millennium Declaration Goals (MDGs). This midpoint will be a powerful reminder to African governments and the international community that time is fast running out, that the due date for the investments and policies needed to meet this international commitment will soon be past. Clearly, based on recent assessments, if Africa is to sustain (and step up) its current positive economic growth performance and improvements in governance in order to meet the MDGs, it will need to overcome significant economic, social, human and environmental challenges. These challenges – derived directly from the MDGs – arise from the continent’s history, political economy, geography, and relationships among the countries and with the wider international community.

23. The MDGs are time-bound goals and targets and represent the international community’s commitment to reduce extreme poverty in half and improve key indicators of human development by 2015 relative to their 1990 levels or rates. Adopted by world leaders in the Millennium Declaration at the 2000 UN Millennium Summit, they now serve as an anchor for mobilizing international action for human development and provide a framework for national action. Progress towards these goals was assessed by the international community at the 2005 UN World Summit. Overall, the assessment found that countries were making progress.

24. However, progress was varied across the regions, with Africa in general and sub-Saharan Africa (SSA) in particular, making the slowest progress and at risk of not achieving the goals by the target date. Against this backdrop, the Summit, in its Outcome Statement, re-affirmed the international community’s commitment to these goals and called on countries with extreme poverty to adopt and begin to implement by end 2006 “comprehensive national development strategies to achieve the internationally agreed goals and objectives, including the Millennium Development Goals”.²

25. Africa’s slow progress towards these goals, in spite of the renewal and persistence of growth across the region, raises significant concerns. The possible causes and consequences of the slow progress have been extensively studied by African officialdom, the Bretton Woods Institutions (BWI), academia, and United Nations (UN) agencies³. While there is consensus in some areas, there remain many areas where consensus is yet to emerge and which continue to provoke significant policy and analytical debate. One such area is the set or mix of interventions that African countries need to adopt and implement in order to accelerate growth and development to achieve the Goals.

26. This background and issues paper is prepared for the 2007 United Nations Economic Commission for Africa (ECA) Conference of African Ministers of Finance, Planning and Economic Development⁴. Its purpose is two-fold: first, to raise and spell out some of the emerging challenges to accelerating growth and development to meet the MDGs in Africa; and second, to propose a set of possible actions and policies for debate and consideration by

² Paragraph 22 (a) of the Outcome Document of the 2005 World Summit.

³ See for example, Sachs et al (2004), “*Ending Africa’s Poverty Trap*”, Brookings Institution. See also ECA “*Economic Report on Africa 2005*” and the “Issues Paper for the 2005 ECA Conference of Ministers of Finance, Planning and Economic Development”, Abuja, Nigeria. Also, African Union (2006), *An African Common Position on the Review of the MDGs and the Millennium Declaration*.

⁴ In subsequent sections of this paper, this will be abbreviated to simply Conference of Ministers.

Ministers in order to map out a way forward for scaling up interventions to accelerate growth and development to meet the MDGs in Africa.

27. The paper builds on previous studies, reports and Ministerial conferences that have examined options for accelerating the continent's progress towards the MDGs. ECA and the African Union Commission (AUC), for example, published the "African Common Position on the MDGs" in 2005, which included a set of policy proposals. The CfA report also contains some proposals as does the UN Millennium Project report "Investing in Development", which laid out a set of actions, including some "quick wins".

28. The 2005 ECA Conference of Ministers on the theme "PRSPs, the MDGs, and Mutual Accountability" recommended that countries strongly align their PRSPs to the MDGs. In March 2006, the "African Plenary on Poverty Reduction Strategies and the Millennium Development Goals" jointly organized by ECA and AUC in Cairo, Egypt, called on African countries to intensify efforts to reach the MDGs, a call which was repeated at the 2006 ECA Conference of Ministers in Ouagadougou, Burkina Faso and echoed at the May 2006, African Ministerial Conference on Financing for Development in Abuja, Nigeria.

29. This paper is organized as follows. Section 2 presents a brief assessment of Africa's progress so far to meet the MDGs. Section 3, building on section 2, discusses the challenges that the continent must address in order to accelerate growth and development to meet the MDGs. These two sections provide a context for section 4, which presents the way forward in the form of issues for discussion, while section 5 provides the conclusion of the discussion.

B. Assessing Africa's Progress towards the MDGs

30. As pointed out in the introductory section of this paper, September 2007 will mark the midpoint on the road to 2015. This milestone could be a wakeup call for African countries to scale up efforts to reach the MDGs as recent assessments continue to show the continent at serious risk of not meeting all the goals. The aggregate scorecard on MDGs clearly indicates that currently less than a score of the countries of the region are on track to meeting a significant number of the goals, with a concentration of the strong performers in the North Africa region. Yet, the picture is not all that bleak: there have been some positive developments in recent years which indicate that the challenge of Africa's meeting the MDGs is not insurmountable, if both national and international policy measures are scaled up in a number of the critical areas discussed in the next section.

31. On the upside, there continues to be broad and sustained commitment to the MDG agenda, particularly at the highest decision-making levels in the region. Over the past three years, African countries and the political leadership have demonstrated increasing commitment to the MDGs. AU has placed the MDGs at the centre of the NEPAD vision and concretely expressed its commitment to facilitating acceleration of progress towards them through adoption of a Common Position at its 2005 Summit. It subsequently presented this Common Position to the G-8 countries at their Gleneagles Summit, and to the international community at the 2005 UN World Development Summit. In 2005, the AU Assembly (AUA) requested AUC, in collaboration with ECA and AfDB, to monitor MDG progress in Africa and report outcomes to AUA. Further, at its 2006 Banjul Summit, AU reiterated its commitment to the MDG agenda, reinforcing it by recommending concrete measures for scaling up efforts to meet the Goals. As noted in the introductory section of this paper, the African Ministers and other key

Sector Ministries have consistently placed MDGs at the centre of their conferences and meetings, particularly since 2005.

32. Recognizing the need for urgent action to accelerate progress towards these goals, world leaders, in the Outcome Document of their 2005 World Summit, resolved that countries with extreme poverty “adopt, by 2006, and implement comprehensive national development strategies to achieve the internationally agreed goals and objectives, including the Millennium Development Goals”⁵. To get these time-bound MDG targets operational within national planning frameworks involves formulation of strategies that are sufficiently ambitious, comprehensive enough to address all requirements and areas, grounded on robust financing strategy and macroeconomic frameworks and anchored on an implementation strategy that incorporates measures addressing capacity constraints.

33. Two years on, some measurable progress has been made towards the formulation and implementation of MDG-based strategies and plans. With initial impetus through the UN Millennium Project⁶ and subsequently UNDP in a broadening partnership including the development partners, UN agencies, ECA and the BWI, thirty-five (35) African countries⁷ have embarked on the process of preparing and implementing MDG-based national strategies and action plans. In all of these countries, requisite capacity, though of varying quality, has been created for carrying out needs assessments, while there are high-level undertakings to ensure that plans derived from the assessments are indeed addressing the MDGs.

34. The prospects and possibilities of quick-impact initiatives such as free malaria nets distribution, and food subsidies for education are gaining renewed currency as countries adopting them register advances in several MDGs. Given this, there is compelling need to scale up these interventions within a planning framework, to accelerate growth and development to achieve the MDGs in African countries. However, significant challenges have to be overcome or at least attenuated.

C. Challenges

35. Assessments of Africa’s progress towards the MDGs have highlighted a number of challenges - some new, others old - that fetter growth and development and thus slow progress towards the Goals. Most of these challenges are inter-related; hence, success in tackling them is critically dependent on simultaneous action on many fronts. This section explores a number of these challenges. Some degree of consensus has emerged around some MDGs, while others remain subjects of intense debate. Five relatively broad groups of challenges are discussed:

- Growth, Employment and Inequality;
- Scaling up Financing for Public Sector Investments;
- Policy Environment;
- Partnerships and Globalization; and
- Peace and Security.

⁵ Article 22a-A/RES/60/1, 2005

⁶ The UNMP ceased to exist in December 2006.

⁷ Benin, Botswana, Burkina Faso, Burundi, Cape Verde, Cameroon, Central African Republic, Chad, Comoros, Cote d’Ivoire, Democratic Republic of Congo, Ethiopia, Gabon, Gambia, Ghana, Guinea Bissau, Guinea, Kenya, Liberia, Madagascar, Malawi, Mali, Mozambique, Niger, Nigeria, Republic of Congo, Rwanda, Senegal, Sierra Leone, Togo, Uganda.

1. Growth, employment, and inequality

- *Sustaining and boosting growth*

36. Growth, especially sustained growth, remains a major challenge for many African countries. Recently, many African countries have been growing at more than 5 per cent per annum. Some remain the same or report negative growth rates. The growth challenges for these two groups of countries differ: For the growing economies, there is a twin challenge of sustaining the growth (i.e. preventing a growth collapse so characteristic of Africa's previous growth experiences) and increasing it to the 7 per cent annual rate now adjudged to be the minimum rate of growth for halving poverty by 2015 and reaching the MDGs. For the countries that are not growing, the challenge is to jump-start growth, tapping the productive potential of the private sector in particular and the informal sector - where women and girls are especially over-represented - and the poor who remain largely underutilized as evidenced in high underemployment and unemployment rates.

37. Growth is critically dependent on good policies. There is evidence to suggest that overall improvement in the quality of economic policy and economic management is an additional factor⁸ that explains the recent improvements in Africa's economic performance (ECA 2001, 2007). The key challenge here is for African countries to maintain and scale up the policies that account for the recent good growth performances. This will require them to sustain efforts to make the environment conducive for private sector growth and job creation. They also need to create a suitable basis for harnessing the possibilities and potential of the informal sector. Creating a financial system which contributes to macroeconomic stability and to fostering small- scale enterprises will remain central in their efforts as they design policies to eliminate gender-specific, ethnic, religious and social exclusion and mitigate the unequal distribution of, and unequal access to productive resources. This last includes land reform, increased pro-poor spending especially on education and health (about which more is said below), and improving access to micro-credit.

- *Raising agricultural productivity and achieving rural transformation*

38. Raising agricultural productivity and transforming Africa's rural areas are both critical for achieving MDG 1⁹ and the health MDGs (4,5,6) as well. The continent continues to depend largely on agriculture for employment and most Africans still live in rural areas. Improving agricultural productivity will, in addition, have a positive effect on gender since a large proportion of African women depend on the sector not just for food but also income. Overcoming this challenge will require substantial scaling up of interventions to increase the productivity of African agriculture, which, at the moment, remains hobbled by its high dependence on nature.

39. The low level of agricultural development furthers poverty, hunger, and poor health status, all of which increases vulnerability to HIV/AIDS and other diseases. The growth of African agriculture is also limited by other factors chief among which are agricultural

⁸ Other factors include rising demand for Africa's exports, particularly minerals, including oil and gas, some improvements in weather conditions, and improving terms of trade resulting from the increasing demand from China and India.

⁹ Under MDG 1, countries committed to reduce by half the proportion of people who suffer from hunger, by 2015.

protectionism in developed countries, inadequate farm-level investments to boost productivity, inadequate access to water, and climate change and climate variability. Declining soil fertility, land degradation, droughts and floods associated with global warming, poor access to markets and extension services are also some of the key constraints to agriculture in Africa. Very little of the continent's arable land is irrigated. Tsetse flies reduce grazing range for cattle. Fertilizer application is limited. Rural incomes are volatile because of the near complete dependence of agricultural production on rain and highly variable weather. There is, however, effort at the continental level to deal with the challenge of low agricultural productivity (see box 1).

Box 1: Realizing Africa's Green Revolution – The Abuja Fertilizer Summit

Increased and sustainable agricultural production is critical for economic growth and development in Africa. However, this has so far been elusive. To address this problem, African Heads of State and Government adopted the Comprehensive Africa Agricultural Development Programme (CAADP) as a framework for agricultural growth, food security, and rural development. In the CAADP, continental leaders have set a goal of 6 per cent annual growth in agricultural production, seeing this as essential for attaining MDG 1 - halving poverty and hunger by 2015.

Low soil fertility is one of the main causes of Africa's persistent food insecurity. Fertilizer use is limited. Intensive mono-cropping has led to widespread depletion of soil nutrients. The situation is critical in SSA, where farmers use an average of only 8 kgs of fertilizer per hectare yearly, significantly lower than the 100 to 200kg/ha that is the standard in regions that have experienced rapid agricultural productivity growth.

Recognizing the importance of scaling up the availability of agricultural inputs for attaining the MDGs, African governments and other stakeholders in African agriculture organized an Africa Fertilizer Summit in Abuja, Nigeria from 9 to 13 June 2006. The goal of the Summit was to build a consensus around key issues concerning increasing fertilizer use in Africa, and to agree a strategy for developing an Africa Fertilizer Action Plan, the outcome of which would be the accelerated access of millions of poor farmers to fertilizers and complementary inputs that help raise farm production and achieve food security.

In the Abuja Declaration on Fertilizer for African Green Revolution, issued at the end of the Summit, African leaders declared fertilizer, "*a strategic commodity without borders*" and resolved that "*the African Union member States will accelerate the timely access of farmers to fertilizers*". Twelve key measures to foster an African Green Revolution were adopted. Of note is the resolution of AU member States to increase fertilizer use from the current average of 8 kgs per hectare, to an average of at least 50 kgs per hectare by 2015. In furtherance of this, the Declaration recommended "*the elimination of taxes and tariffs on fertilizer and on fertilizer raw materials*".

The Action Plan agreed by the Summit to operationalize the Declaration envisages the development of agro-dealer networks across rural Africa, establishment of national agricultural input credit guarantee facilities, use of "smart" subsidies to ensure that poor smallholders have access to fertilizers, creation of regional fertilizer procurement and distribution centres, removal of trade barriers and promotion of local fertilizer production. The Summit also called on AfDB, assisted by ECA, to establish an Africa Fertilizer Development Financing Mechanism.

Source: IFAD, 2006

40. Success in overcoming the challenge of raising agricultural productivity and rural transformation therefore depends on at least three levels – national, subregional and continental. Action measures are needed in both the input and output markets.

- ***Climate change – an underappreciated challenge***

41. Climate change poses a major threat to Africa's future (Commission for Africa). It is likely to have a significant impact on biodiversity and increase the vulnerability of poor people to natural disasters. Climate change and climate variability will adversely affect Africa's agriculture as average rainfall is expected to decrease. In the Sahel, for example, there has been on average a 25 per cent decrease in rainfall over 30 years¹⁰. Evidence presented at the 2006 United Nations Conference on the Environment suggests that Africa is indeed suffering from the adverse effects of global warming. Desertification, especially in the West African Sahel, is proceeding at an alarming rate. According to reports by the Nigerian Federal Environmental Protection Agency (FEPA), each year Nigeria loses several villages to the expanding sands of the Sahara. Furthermore, the World Bank has reported that rainfall variability will reduce Ethiopia's growth potential by about a third¹¹.

42. Climate variability and climate change are thus accentuating rural poverty, increasing food insecurity and hunger and reducing the continent's scope of benefits from export of agricultural products. In the West African Sahel, water scarcity is an evident problem, as can be seen from shrinking rivers and lakes, for example, Lake Chad. Yet, water is an important input into achievement of all the other MDGs. Lack of access to safe water, sanitation and hygiene is an important contributor to high mortality among children and the elderly. According to UNICEF (2006), unsafe water and lack of basic sanitation and hygiene every year claim the lives of more than 1.5 million children. UNDP (2006) reports that SSA loses about 5 per cent of GDP (or US\$ 28.4 billion) annually, because of water and sanitation deficits. Global warming is likely to exacerbate a crisis arising from poor water harvesting and management policies.

43. Climate variability is also affecting the efficiency of critical infrastructure such as electricity. Much of Africa depends on hydropower for electricity generation. However, water levels have been low in recent times, resulting in brownouts and blackouts in many countries. The resultant low level of electricity generation is adversely affecting agricultural productivity as well as industrial productivity. There is anecdotal evidence that rising temperatures in the African highlands is promoting the spread of diseases such as malaria. Overcoming the challenges of poor health, poor food security, poor health and sanitation outcomes, and raising overall and agricultural and manufacturing productivity in Africa require that the continent devises instruments for minimizing, mitigating and/or adapting to the consequences of climate change¹² including better management of climate variability.

- ***Employment is critical for wealth creation and poverty reduction***

44. Recent growth in Africa has not resulted in significant creation of jobs even though employment creation for the largest and broadest part of the population is essential for accelerating growth and development to reach the MDGs. This raises serious concerns about

¹⁰ Commission for Africa idem

¹¹ Cited in UNDP, 2006.

¹² This was among the major issues discussed at the 2007 AU Summit on the theme "Science and Technology and Climate Change."

the continent's ability to accelerate poverty reduction and wealth creation to achieve the MDGs. A major reason for this according to ECA (2006) is the migration of activities away from agriculture into capital-intensive sectors such as mining and oil production and the concentration of economic activities in the mineral resources sectors. This has resulted in a significant reduction in agricultural productivity and high rural underemployment as well as unemployment.

45. To address this problem and provide options for the way forward, AU convened an Extraordinary Summit of AU Heads of State in Ouagadougou, Burkina Faso in 2004 on the theme "Employment and Poverty Alleviation in Africa". The Summit resolved that AU member States should make employment creation an explicit and central objective of economic and social policies at national, regional and continental levels. An enabling Plan of Action to implement the Summit Outcome was adopted, as well as a Follow-up Mechanism. The Summit also agreed to include initiatives on employment creation and poverty alleviation as indicators in NEPAD's APRM.

46. This issue was further taken up at the 2006 ECA Conference of Ministers of Finance, Planning and Economic Development on the theme "Meeting the Challenge of Employment and Poverty in Africa" in Ouagadougou. In the Ministerial Statement issued at the end of that Conference, Ministers committed to "explicitly incorporate employment objectives in national development strategies and policies"¹³. Although it is too early to assess the implementation of this commitment and the Declaration of the AU Extraordinary Summit in individual African countries, the continuing persistence of high rates of unemployment across the regions suggests that employment creation remains a critical challenge.

47. Finally, the acute underproduction of opportunities for full employment and decent work in most African countries has pushed to the fore a pressing issue of international labour migration and "brain drain". Although some of the pecuniary costs of migration may be offset by remittances – if the remittances are put to productive uses – the out-migration of skilled workers from a region where skills are in short supply can be a severe constraint on MDG achievements. The effect of migration is most acutely felt in the health and education sectors.

- ***Rising inequality – a fetter on progress***

48. There is evidence in the economics literature that rising inequality is bad for growth, that countries that are less equal do, in general, have a poor growth performance relative to more equal societies. Distributive inequality comes in two distinct but invariably linked forms: unequal distribution of opportunities (or initial endowments) and the unequal distribution of outcomes – earnings/incomes. The link between the two is that unequal distribution of initial endowments (such as land and other forms of wealth) results in unequal distribution of outcomes. Most analysts, however, focus on unequal distribution of outcomes (incomes) because it is easier to address politically and because there is some consensus in the literature that broad-based aggregate income growth, as measured by GDP per capita, is the main instrument for reducing poverty and such inequality.

¹³ Ministerial Statement, ECA Conference of Ministers of Finance, Planning and Economic Development, Ouagadougou, Burkina Faso, May 2006.

49. In Africa, evidence suggests that income inequality is rising (UNDP, 2006, ADB 2002). According to White and Killick (2001), Africa ranks second to Latin America as the region with the most unequal distribution of income¹⁴. While there is evidence that growth in Africa is accompanied by poverty reduction¹⁵, the rising inequality raises important implications for the sustainability of growth. Evidence suggests that both are harmful to growth. Persson and Tabellini (1994), for example, show that a one standard deviation increase in equality is associated with an increase in growth of one-half to 1 per cent.

50. High and/or worsening income inequality dampens the poverty-reducing effects of growth in many countries. This is especially true in countries rich in mineral resources where growth has concentrated in sectors that generate very little employment and where the poor lack the skills or mobility (due to lack of financial resources) to take advantage of opportunities arising from growth. Rising income inequality can result in social tensions and conflicts, crime, and political instability. It could also contribute to governance problems such as increase in corruption. Such problems point to the need for more effective policies to spread the benefits of growth, especially to disadvantaged groups, especially women, youth, and other socially excluded groups¹⁶. One way to do that, which this paper addresses in the next section, is through social transfer programmes. It is equally important that governments ensure that economic reforms such as privatization and land reforms do not result in wealth and asset concentration.

- ***Social transformation – an emerging challenge***

51. Related to the challenges of inequality and employment is the challenge of managing the significant social transformation taking place in all African countries. Rapid urbanization, significant demographic changes (largely as a consequence of HIV/AIDS), and changing family structures could dominate the attention of Finance Ministers in the near future. The large number of unemployed but skilled young people is creating international migration pressures. The multi-faceted consequences of HIV/AIDS are only just becoming evident: changes in family structure, child-headed and grandparents-headed households, and crime. Dealing with urbanization and delivering services to the urban poor require that countries find pragmatic policy responses.

- ***Slow progress in gender equality remains a constraint***

52. The MDGs on gender equality and maternal health are of special concern. While many countries have made some progress towards the official MDG target of improving gender parity in education, overall levels remain low, especially at higher levels of education. Other dimensions of gender equality- equitable access to health facilities, access to basic infrastructure (water, energy, roads) to reduce the time burden of poverty, and the political and economic participation of women and girls for example- show even less progress.

53. Such gender inequalities also slow progress towards achievement of the MDGs in the region. The importance of improved gender outcomes to achieve all the other MDGs has been well documented¹⁷ and it is acknowledged that progress on poverty, health, education and

¹⁴ According to UNDP, op. cit, Africa is home to 5 of the world's ten most unequal societies: South Africa, Lesotho, Zimbabwe, Botswana, and Namibia.

¹⁵ See Luc, Demery et al. (2000)

¹⁶ Loury (1999) found that social exclusion reduces the incentive to attend school and work.

¹⁷ See UNMP, 2005a, *Investing in Development*.

environmental outcomes is dependent to a great extent on improvements in the lives of women and girls. Women's work, both paid and unpaid, is critical to the survival and security of poor households and an important route by which households escape poverty. Paid employment is critical to women's empowerment.

54. Yet, a range of gender inequalities pervades labour markets around the continent and must be addressed if the MDGs are to be met. Systematically, women are paid less than men for the same jobs. This has important consequences for household welfare, since women are more likely than men to spend their incomes on food, education, and health care that enhance the welfare of their children as well as their own. Dependency on women's income is even greater in households where they are the sole breadwinners. Female-headed and -maintained households constitute one-fifth to one-third of households in many countries¹⁸.

2. Scaling up financing and public sector investments

55. The Monterrey Consensus on Financing for Development adopted by world leaders at the 2002 UN International Conference on Financing for Development, represents a commitment by the international community to make financing available for development. Consisting of six chapters¹⁹, the Consensus today serves as an important reference point for international development cooperation and serves as a framework for scaling-up mobilization of resources for financing public sector investments to accelerate growth and development to achieve the MDGs.

- *Mobilizing financing for public sector investments and MDG-related expenditure*

56. Although debt relief has provided additional resources for scaling-up MDG-related expenditures as noted above, this still falls far short of the needs of the continent²⁰. There is consensus that the resource gap is a major impediment to Africa's progress towards the MDGs. UNCTAD (2002, 2006), Sachs et al. (2005), and the UK Commission for Africa (2005) argue that what Africa needs to achieve the MDGs is a "Big Push"²¹, a steep increase in resources to enable countries effectively scale up public sector investments, the low level of which is a major impediment to growth and delivery of social services. According to the UK Commission for Africa, and Sachs (2005), Africa needs an additional US\$ 5 billion per year of financing to meet the MDGs and US\$ 10 billion per annum to address gaps in infrastructure (roads, energy, water and sanitation, etc.).

57. A consensus has emerged that financing for Africa's development needs to be scaled-up. The G-8 countries, at their 2005 Gleneagles Summit, promised to double ODA to Africa by 2010. EU member States decided in 2005 to increase ODA to 0.7 per cent of GNI by 2015

¹⁸ Op. cit.

¹⁹ The six chapters are: domestic resource mobilization, mobilizing international resources for development, foreign direct investment and other private flows, international trade, external debt, and addressing systemic issues in the international finance architecture.

²⁰ See, for example, J. Sachs, et al. (2005), "Escaping Africa's Poverty Trap", United Nations Millennium Project (2005), "Investing in Development"; the UK Commission for Africa, "Our Common Interest"; United Nations (2001), "Financing for Development".

²¹ The idea of a "Big Push" dates back to Rosenstein-Rodan and W. Arthur Lewis in the 1950s. Reincarnations of the idea are found in UNCTAD (2002) in arguing for a way out of Africa's Poverty Trap and Sachs et al. (2005), Sachs (2005) and UK Commission for Africa (2005). W. Easterly (2005) is not enthusiastic about the idea.

(0.33 per cent in the new member States). A lot of that promise is yet to be fulfilled. However, there are efforts being made to mobilize additional financing. New and innovative financing mechanisms such as the UK-imposed International Financing Facility (IFF) and the French Government-proposed aviation tax are in pilot stages of implementation.

58. There is also renewed emphasis on increasing FDI inflows²². FDI to Africa, according to UNCTAD (2006) and ECA (2006), although growing, still falls far short of the continent's needs. Besides, much of that has gone to mineral-rich countries such as Angola, Chad, and Nigeria. However, Brazil, China, and India, and perhaps the Gulf States, represent new sources of financing that need to be explored.

59. African countries are intensifying domestic resource mobilization efforts. The scope for meeting a substantial part of MDG financing requirements from internal sources is constrained by low rates of domestic saving and the high transaction costs of domestic savings mobilization. The capacity of domestic financial institutions to mobilize domestic savings in order to provide development finance is limited by the small size of savings deposit accounts and the small capital base of the banks themselves.

60. Mobilizing foreign private savings through foreign direct investment (FDI) is constrained by the small size of many national markets and poor investment climate – of which infrastructure, regulatory framework, and bureaucratic capacity are key elements. Countries thus need to mobilize foreign savings - overseas development assistance (ODA), loans - if they are to raise additional resources to scale up financing of public sector investments to achieve the Goals.

61. ODA to SSA has been increasing in recent times (see Table 1). It rose from US\$ 13.715 billion in 2001 to US\$ 32.023 billion in 2005 representing a more than two-fold increase at an annual rate of growth of 19.3 per cent. In 2005, ODA to SSA was 5.52 per cent of the region's Gross National Income (GNI).

Table 1: ODA receipt by geographical groupings of Developing countries (USD Million)

Region	2001	2002	2003	2004	2005	Average annual rate of change	ODA/GNI (2005)
North Africa	2 393	2 346	2 170	2 986	2 491	0.023	0.82
Sub-Saharan Africa	13 715	18 600	24 182	25 867	32 023	0.193	(5.52)
North and Central America	2 940	2 369	2 540	3 392	3 213	0.032	(0.35)
South America	2 497	2 347	3 112	2 934	2 543	0.015	0.18
Middle East	2 478	3 672	5 477	7 578	24 404	0.715	(4.20)
South and Central Asia	7 494	8 551	8 243	9 111	11 513	0.095	(1.06)
Far East Asia	6 484	6 480	6 219	5 953	8 207	0.059	(0.28)
Europe	3 338	5 017	3 487	3 600	4 065	0.072	(0.72)
Oceania	780	708	815	936	1 145	0.086	(13.04)

Source: OECD Journal on Development: Development Cooperation Report, 2006, vol. 8, issue 1

²² See ECA Economic Report on Africa, 2006.

62. This will increase if the G-8 Gleneagles commitments are met and if EU does succeed in raising ODA to about 0.56 per cent of its GNI as promised. The increased flow of aid, while very necessary for bridging the financing gap and expanding fiscal space in African countries, raises some important issues chief among which is aid dependency and the potential Dutch disease effect of increased aid flows.

- *Addressing key infrastructure bottlenecks*

63. Tied to the challenge of scaling-up financing is the challenge of identifying the growth- and equity-promoting sectors where the additional financing can be directed. There is consensus that infrastructure is one such sector. The poor state of infrastructure in Africa is now widely recognized as a major impediment to domestic market and regional integration, to equitable access to social services, and therefore to growth. There is agreement among African governments and their development partners that the expansion of infrastructure would have positive growth effects that would help the continent accelerate progress towards the MDGs. Increased access to infrastructure at the household level is crucial to reducing the time burden on women and girls who bear, according to various estimates, over 65 per cent of household chores. Women and girls often spend up to 4 times more hours fetching water and firewood than their male counterparts. Access to basic minimum infrastructure (water connections, clean energy sources for households, rural roads) is essential for improving outcomes for women and girls, while also hastening progress on the other MDGs.

64. The infrastructure (power, roads, ports, telecommunications and urban services) requirements of the region are very large. For example, NEPAD recognizes the central importance of infrastructure development not only for the economic development of the region but also for social development and is mobilizing efforts and resources to scale up the development of regional infrastructure (see box 2).

Box 2: Bringing Africa Together: NEPAD's Short-term Plan for Infrastructure Development

One of the main priorities of NEPAD is the promotion of African regional integration. The economic justification for this is obvious: African economies are typically too small to generate the economies of scale that can be found in larger markets. Bridging the infrastructure gap has been identified as an important element of promoting regional integration in Africa. Infrastructure is defined in this context as energy, water, transport, and information and communication technology (ICT).

In developing an action plan, NEPAD adopted a two-prong approach: a short-term action plan has been based primarily on a survey of the infrastructure projects and the initiative in the countries and included in the programmes put forward by the regional economic communities (RECs). For the short-term plan, the main emphasis has been on strong facilitation. These projects, known as NEPAD projects (examples include the West African Gas Pipeline Project, the Southern African Development Community Power Pool) were selected according to criteria such as the stage of completion (to enable fast-track completion) and their regional dimension. Special attention was paid to projects that have stalled for political reasons and where NEPAD's intervention could make a difference.

Further, initiatives that offer solutions to regional policy, regulatory or institutional constraints to regional infrastructure activities (such as the regional GSM roaming facility) were also identified as NEPAD projects. The Short-term Action Plan is linked to and complemented by a Medium- and Long-term Action Programme that will take up projects and initiatives that require more time for preparation and implementation.

Efforts are underway to ensure the successful implementation of the Short-term Action Plan. Political will and financial resources are being mobilized and a mechanism for knowledge sharing, networking and dissemination of best practices among countries, RECs and technical agencies is being developed. The NEPAD Infrastructure Consortium for Africa, founded in 2006 and hosted by AfDB, with representation from key African institutions and donors, serves as the arrow-head of these efforts to accelerate progress to meet the urgent infrastructure needs of the continent. The Consortium will address both national and regional constraints to infrastructure development. Regional infrastructure will be emphasized recognizing the particular challenges at this level. National infrastructure will not be ignored since most infrastructure services are addressed at this level, within national budgets and implementation frameworks. Issues of harmonization also need to be addressed.

Source: NEPAD, 2002; Infrastructure Consortium, 2005 ; UNECA, 2002

65. Similarly, the UK Commission for Africa identified poor infrastructure as “a critical barrier to accelerating growth and poverty reduction” in Africa and estimated the *additional* infrastructure investment requirements of Africa to be US\$ 20 billion a year.

66. Infrastructure is critical for equitable access to social services and other interventions. It is a critical component of the investment climate and an important driver for domestic trade integration (to enable poor rural farmers to move their produce on time to urban markets and to better manage idiosyncratic shocks) and to efforts that improve access to services. There is evidence that countries such as Ethiopia that have substantially scaled up infrastructure expenditure have seen significant improvements in their growth performance. Without significant improvement in roads, very few children in rural areas will have access to quality

primary education because of the urban bias of teachers. The same also applies to health care providers. Yet, success in the health and education MDGs depends critically on reaching and improving the life chances of the millions who live in rural and peri-urban areas of Africa. Indeed, the huge infrastructure challenge of Africa's rising urban population is yet to receive the attention that it deserves. In the final analysis, Africa's future will depend on how effectively its growing cities are leveraged for economic growth and development.

67. Spending on infrastructure has increased quite significantly in the recent past in the region and has resulted in improved access for many poor households. For example, the average electrification rate grew from the late 1990s to 2002 by 27 per cent (World Bank 2006). Telephone access has also improved significantly. Nonetheless, the share of infrastructure investments in GDP remains small relative to need. Clearly, addressing the infrastructure gap will require careful and prudent scaling up of infrastructure investments. This requires the involvement of not only national governments and donors, but also the private sector and sub-national governments (especially in Federations since infrastructure provision is on both the concurrent and exclusive lists). In many African countries, broad stakeholder involvement in infrastructure provision is an enormous challenge. Overall, addressing the infrastructure challenge to meet the MDGs will require efforts in three critical areas: (a) political will to reach underserved populations with basic infrastructure needs; (b) financial resources including private provision; (c) and the organized efforts of sub-national units/jurisdictions.

- ***Scaling up investments in human capacities/capital***

68. Complementary to scaling up investment in infrastructure and agriculture is the need to also scale up social sector interventions. Productivity, income distribution, and growth are directly determined by a country's stock of human capital – the empirical evidence is strong on this – and the rate and pace at which it accumulates. Education, health, water and sanitation, and social protection are critical for building up a country's stock of human capital and thus, for achieving the MDGs. Yet, investment in these areas in many African countries has been falling instead of rising, until recently.

69. Education is essential for poverty reduction. Educated mothers have fewer children, are less likely to die during childbirth and their children are more likely to go to school and to complete schooling. Poor health status imposes a considerable burden on society. High absenteeism resulting from high morbidity results in low worker productivity. Similarly, high mortality – especially in the context of high prevalence rates for HIV/AIDS, malaria, and TB – erode the stock of human capital. Ill children do not do well in school. Lack of water and poor sanitation and hygiene promote the transmission of diseases.

70. African countries need to improve their capacity to expand access to these basic services through scaling up investments in education, health, water and sanitation. Achieving the MDGs for child and maternal health will require a functioning primary health care system that can provide the basic minimum package of interventions needed to reduce child mortality. Universal access to emergency obstetric care is important for reducing maternal mortality rates, and reversing the spread of infectious diseases such as malaria, TB and HIV/AIDS will require concerted investments in prevention and treatment. Scaling up for health and education requires building basic infrastructure, training teachers, doctors, community health workers and other staff, and setting in place systems of management that enable the sustained provision of these basic services. Access gaps created by user fees, and the requirement of school uniforms that discourage poor children from attending school, need to be bridged. As is pointed out in box 3,

abolition of school fees in Tanzania resulted in a tremendous increase in the number of children going to school. The same is true for health care. Evidence from Zambia showed that there was considerable decline in the demand for health care when user fees were introduced as part of the Structural Adjustment Policies (SAPs) of the 1980s.

3. The policy environment: planning, monitoring and tracking performance

71. A conducive policy environment is essential for accelerating growth. Recent assessments by ECA and other agencies suggest that the policy environment in most African countries has improved and is an important additional factor explaining the continent's recent impressive growth performance. However, more can be done in such areas as the planning framework and policy space.

- *Weak planning framework*

72. It has been pointed out by many analysts that the major weakness of the MDGs is that they do not constitute a planning framework but a set of goals and targets towards which countries should work. This has been a constraint and was recognized by the world leaders at the 2005 UN World Summit. It was resolved that, by the end of 2006, countries with extreme poverty should adopt bold poverty reduction strategies or national development strategies that are MDG-based and begin to implement them.

73. The Outcome Document recognized that heavily indebted poor countries (HIPC) were already using the PRSP as a planning framework and called for it to be aligned with the MDGs. Although the PRSP had become the dominant national planning instrument, especially in HIPC countries, it was not "needs based"- a weakness that reduced its sufficiency as a framework for scaling up efforts to reach the MDGs. The remedy for this is to make the PRSP nest in a long-term plan that is bold and ambitious and unconstrained by a restrictive macroeconomic framework²³.

74. An MDG-based poverty reduction strategy is based on "needs assessment"²⁴ and seeks to tailor the global targets to the context of each specific country. It also clearly delineates intermediate targets for political accountability and translates the targets into specific programmes and policies for the next 2-3 years. In this way, alignment between the PRSP and MDGs is achieved. However, this has not been easy as many countries are just acquiring MDG-planning capacity. In addition, because the MDGs offer a minimalist framework, there is also the additional issue of adapting them to reflect national realities and targets. Besides, planning in Africa is constrained by the poor quality statistics, weak statistical capacity and institutions – exacerbated by poor funding - and lack of harmonization of statistical standards²⁵.

²³ This message was emphasized at the Cairo African Plenary on Poverty Reduction Strategies and the Millennium Development Goals in March 2006 and again in 2006 at Ouagadougou (Burkina Faso), when African Ministers acknowledged "the necessity of aligning the various processes (of PRSPs) towards realizing economic and social objectives in (the) countries, especially the MDGS (Para. 11 of the Ministerial Statement, Conference of African Ministers of Finance, Planning and Economic Development, 14-15 May 2006.)

²⁴ There are two "needs assessment" methodologies: one proposed by the UN Millennium Project, which is essentially a gap analysis, and the other, MDG-based simulation models such as the World Bank's "Maquette" for MDG simulation.

²⁵ Efforts are underway to address this problem. One such effort is the Forum on African Statistical Development (FADSEV); another is the AU- proposed African Statistics Charter.

- *Policy space*

75. There has been considerable debate in research and policy circles of the importance of increased policy and fiscal space for growth and for meeting the MDGs²⁶. If national development plans or PRSPs are to be bold and ambitious, it is clear that the overly restrictive macroeconomic policy framework of the International Monetary Fund's (IMF) Poverty Reduction and Growth Facility (PRGF) and the World Bank's Poverty Reduction Support Credit (PRSC) could be a constraint. For example, the PRGF requires countries to set a ceiling of no more than 3 per cent of GDP²⁷ for deficit financing of the budget. There is some consensus that in light of the considerable financing that African countries need to scale up public sector investments to meet the MDGs, a more permissive fiscal space is urgently needed, one that recognizes the need to institute measures to address the possible adverse macroeconomic consequences of scaling up spending.,

76. The debt burden had been a significant constraint on national policy space in African countries in the past two decades. As noted by Tan, it invited endless and at times inconsistent policy prescriptions from donors and multilateral lending agencies, especially during rounds of external debt rescheduling and/or mobilization of additional external financing to meet critical resource gaps²⁸. However, the recent series of debt cancellations under the enhanced HIPC and the Multilateral Debt Relief Initiative (MDRI) offer opportunities for expanding domestic policy space to eligible African countries, enabling them to choose from various macroeconomic and development policy options. The completion of the HIPC debt-relief programme and the upfront and irrevocable cancellation of eligible debt stock under the MDRI may enable African countries to graduate from the direct economic supervision of non-national actors and scale up national ownership of development plans and strategies.

77. Debt relief is freeing up "fiscal space" previously occupied by debt service, as more resources are now available to the government budget. This is facilitating greater government autonomy on how resources are allocated and utilized, thereby reinforcing national ownership of development plans. Governments now have greater latitude to be more ambitious in their goals, to choose from various options in their macroeconomic policy, social policies, and medium- and longer-term development policies and strategies. This also means that governments can consider a wider range of financing sources including raising taxes, mobilizing domestic savings and acquiring new domestic debt by issuing domestic currency denominated bonds. These financing options have the possibility of enhancing the domestic accountability of leaders.

78. In any case, this "space" should provide countries with the opportunity to develop and implement truly nationally owned development strategies that sustain economic growth and prevent growth collapse. History, however, shows that ensuring time-consistent policies has

²⁶ See for example World Bank (2006) *Fiscal Policy for Growth and Development: An Interim Assessment* and Roy, Heuty, and Letouze (2006) *Fiscal Space for Public Investment: Towards a Human Development Approach*, (UNDP)

²⁷ Both institutions are gradually relaxing their position on the issue of fiscal space. For example, at the Abuja African Ministerial Conference on Financing for Development, May, 2006, sponsored by the Government of Nigeria, AfDB, and ECA, IMF agreed that the over-restrictiveness of the PRGF was a constraint and decided to work with countries to open up fiscal space (page 3 of the Outcome Document.) A World Bank study "Lessons from Growth in the 1990s" also acknowledges the retarding effects of an overly restrictive fiscal policy and its adverse effects on growth and national ownership of development plans.

²⁸ Tan, C. (2006) "Debt Relief Countries Can Make Use of More Policy Space", *TWN Information Service on Finance and Development*.

been a challenge in African countries, with the frequent changes in development paradigms, associated interventions, and competitive participation of non-national actors in policy design. African countries, in the wake of the emerging consensus on the importance of enhanced policy and fiscal space to accelerating growth, have an opportunity to ensure the continuation and expansion of the policies that have resulted in sustained growth of more than 5 per cent over the last five years and to scale it up so that it can result in wealth and employment creation and poverty reduction.

79. Tension could arise between expanded policy and fiscal space on the one hand, and on the other, the need to maintain macroeconomic stability especially in the context of the expected scaling up of aid to the region and or expanded access to debt and aid from emerging non-traditional sources such as China and India. Macroeconomic stability is essential for growth and fears have been raised that ambitious and bold national development plans accompanied by large inflows of ODA could erode it. There have also been concerns that the currency and strength of the argument for scaling up public sector investments – a defining characteristic of bold and ambitious national development plans – presents a temptation to countries to acquire new debt from new sources.

80. Debt relief thus presents an opportunity for enhanced policy space but it also presents moral hazard risk; if an increasing number of African countries get loans from new lenders such as China, African debt may once again reach unsustainable levels. There is thus the associated twin challenge of managing the economic consequences of scaling up aid and reducing the risk of moral hazard. Overcoming these challenges and assuaging legitimate fears for macroeconomic stability require countries to apply the freed-up debt relief resources and additional ODA effectively and efficiently, to sectors that are vital to growth and to achieving the MDGs. There is emerging evidence that countries are indeed doing so and scaling up MDG-related expenditure (box 3).

Box 3- Re-allocating debt relief resources to invigorate efforts towards meeting the MDGs: cases from Uganda, Tanzania, Mozambique, Cameroon, and Nigeria

Uganda's experience with the HIPC Initiative has been broadly positive. It was the first country to qualify for debt relief under both the HIPC and the Enhanced HIPC Initiative in April 1998 and April 2000, respectively. The speed with which Uganda qualified, without having to go through a standard six-year qualifying period, was a reflection of the country's exemplary record of macroeconomic reform and its proven commitment to poverty reduction. In total, as a result of both initiatives, Uganda was granted debt relief amounting to US\$ 1 billion in net present value (NPV) terms to be delivered over a period of twenty years. As a way of protecting funds going specifically to poverty eradication programmes from budgetary cuts, the Government established the Poverty Action Fund (PAF) as an integral part of the budget. The PAF is a virtual fund within the budget that is funded by HIPC savings, "earmarked" donor funds, and government revenues.

The resources saved from HIPC debt relief were deliberately channeled to the PAF and allowed Uganda to increase allocations to critical areas such as primary education, primary health care, rural roads, safe water and sanitation, and agriculture. As a consequence, expenditures on education and health have increased respectively by 9 per cent and 20 per cent per annum over the past 4 years. There have also been substantial increases in spending on water, rural roads, gender, HIV/AIDS, justice, law and order, and on the environment. These investments are in line with attainment of the MDGs, since there is a substantial overlap between the Poverty Eradication Action Plan and MDG targets.

Tanzania and Mozambique also provide good examples. Tanzania has used its debt relief savings to build over 31,000 new classrooms and 1,000 new schools enormously boosting its efforts to provide basic education to every child. School fees have been eliminated and an estimated 3 million children have returned to school. The country is on the threshold of reaching the enrolment target 9 years early. Mozambique has used its debt savings to vaccinate children against vaccine-preventable childhood diseases, build new and renovate old schools, and to electrify schools.

In October 2005, the Paris Club group of government creditors agreed a deal to resolve 100 per cent of Nigeria's debts, including debt stock cancellation worth US\$ 18 billion and Nigeria's buying back the remainder at a discount. This deal was the largest ever for a SSA country. Nigeria is using the extra US\$ 1 billion a year that the deal has freed up to tackle poverty. It is employing an extra 120,000 teachers and putting 3.5 million children into school. A system to track MDG-related expenditures and link them to results has been developed and the President has inaugurated a Commission chaired by him that monitors progress on quarterly basis.

Sources: Kutessa and Nabbumba, 2004; Nigeria Office of Public Communications; and data from www.datareport.org/pdf/debt.pdf, accessed February 2007.

- **Monitoring and tracking progress**

81. Statistics are a valuable tool for the MDGs. It is important for planning and extremely important for tracking progress. Unfortunately, African statistics are generally poor, inadequate, and untimely. A greater challenge exists in terms of collecting and managing sex-disaggregated data. Most statistical institutions lack the capacity for baseline data collection and management making it very difficult to understand the different ways in which men and women are affected

and indeed, the different ways in which interventions and strategies will affect them. Yet, evidence-based planning is required. Thus, a major challenge for many African countries is providing the data necessary for monitoring the MDGs and for planning towards meeting them. Many African countries have not undertaken a census of housing and population in the last 20 years. Of the 53 African countries, only 19 participated in the last round of the population and housing census (ECA, 2006). Preparations are underway to improve participation in the upcoming 2010 round.

4. Peace and security

82. Peace and security are critical for achieving the MDGs. Conflicts - many very violent and of long duration - have been a common occurrence in Africa in the post-independence years. These conflicts have exacted an enormous toll on the continent, not only in terms of lives lost and resources wasted but also in terms of economic growth and development foregone. Conflicts destroy human as well as physical, social and organizational capital. Resources that could otherwise have been allocated to growth and development-promoting sectors are expended on weapons and on resolving conflicts. Conflicts promote crime, poor governance, and, by generating and heightening uncertainty, limit the possibility for macroeconomic stability. Conflicts also facilitate the spread of contagious and infectious diseases, thus increasing the cost of public health programmes. Furthermore, the effects of conflict are not limited to the countries in conflict. Refugees from countries in conflict impose costs on receiving countries such as congestion in the use of public services and an increase in crime.

83. Conflicts were especially common in Africa in the 1980s and 1990s but have significantly reduced in number since the end of the cold war and beginning of the new millennium. Today, Africa cannot be said to be any more characterized by conflict than many other regions of the world. However, while they lasted, their cost was enormous. Lacina and Gledisch²⁹ estimated that battle deaths as a percentage of total war deaths were 11 per cent, 3 per cent, between 12-16 per cent, and 6 per cent for Angola, the Sudan (excluding the conflict in Darfur), Liberia, and the DRC, in that order. This means that the indirect cost of wars and conflicts are measurably higher than the direct costs. According to estimates by Collier and Hoeffler, one year of conflict reduces growth rate by 2.2 per cent³⁰. Collier and Hoeffler further estimate that it would take a post-conflict country roughly 21 years to achieve the GDP level that it would have achieved had there been no war.

84. Peace and security is therefore sine qua non for accelerating growth and development in Africa to achieve the MDGs. Given the return of peace in most parts of the continent, there is the added challenge of maintaining the peace by addressing the root causes of the conflicts.

5. Partnerships and globalization

- *Managing globalization presents risks*

85. Managing globalization remains a key challenge to meeting the MDGs in Africa. The wider implications of the fundamental redesign of global economic (and to some degree, political) arrangements driven by technology and increasing trade openness is not well

²⁹ Reported in B. Ndulu et al. 2007. *Challenges of African Growth: Opportunities, Constraints and Strategic Directions*.

³⁰ Ndulu, *ibid*.

understood. It continues to generate debate. What is clear, however, is that globalization presents both threats and opportunities.

86. There are three main channels through which globalization presents a challenge for accelerating progress towards the MDGs in Africa. The first is through the adverse effects of trade openness on jobs and natural resources harvesting. The second is through its effects on the retention of skilled workers in Africa and the third is the abrupt shift in global political power – vesting enormous power in institutions such as the World Trade Organization (WTO) and the IMF. Although trade openness is known to be good for growth, it comes at a cost; trade openness may impoverish the import sector (which in most African countries is still large) while reducing poverty in the export sector. It may also affect different segments of the population differently. There is also the threat of natural resources depletion that could result from increased openness. So far, it has been difficult for countries to manage this tension.

87. A key aspect of this challenge is the emergence of China, India, and Brazil as major actors on the global stage. Ordinarily, the emergence of these countries should have effects no different from the effect of the emergence of the Asian Tigers. However, the sheer size of these economies suggests that the effect this time around could be different. Low-cost exports from these large new players could swamp the domestic market of African countries, squeeze African exports out of the global market, and foreclose the possibilities of diversification in African manufacturing. It could also swallow up most of the investment inflows. In addition, the rising demand of these countries for Africa's raw materials raises many concerns for environmental sustainability and the future of African economies themselves.

88. Achieving the MDGs is primarily the responsibility of each country. For the MDGs to become the basis for planning and expenditure in national budgets, it is important that they have a constituency within each country. At the moment, they are being driven at the country level by international organizations, the United Nations, and bilateral donors. Yet, without domestic support, it will be hard, especially in parliamentary democracies, to increase allocations to the sectors critical for accelerating progress towards the goals. There is thus a challenge at the country level – to create a domestic constituency for the MDGs and to mobilize domestic support for them.

D. Way Forward

89. The previous Section discussed some of the many challenges to accelerating growth and development to achieve the MDGs in Africa. It is clear that success is critically dependent on scaling up interventions in the public and private domains to overcome these challenges. The re-affirmation of the commitment to the MDGs by the international community at the 2005 UN World Summit, the still slow rate of progress in African countries seven years to 2015, and the expansion of policy and fiscal space (through debt relief and new ODA, especially from EU) provide a unique opportunity for bold action in the region to accelerate and sustain growth.

90. This section identifies some policies for consideration and adoption by Ministers. It is expected that a Plan of Action for scaling up and mobilizing growth to achieve the MDGs, and mapping the way forward, will be adopted by Ministers. The proposals in this section do not necessarily one-to-one match the challenges identified in the preceding section. The discussion is organized under five broad headings: (a) Growth, Employment and Inequality; (b) Financing; (c) Governance, and Institutional Innovations; (d) Peace and Security; (e) Partnerships and Fulfilling International Commitments. We begin with Growth, Employment and Inequality.

framework and anchored on an implementation strategy incorporating measures addressing capacity constraints. Reinforced national ownership is instrumental in producing results and sustainable solutions at country level. Moreover, high-level national leadership is required to mobilize all national stakeholders in a compact to sustain momentum in the implementations of national commitments to meet the MDGs.

Issues for discussion

- How ambitious have national development plans for achieving the MDGs in Africa become and what should Finance Ministers do if they are not? How coherent are the plans?
- Statistics are at the centre of the MDGs but in Africa many are lacking and few are measured well. The MDGs have 18 targets and about 78 indicators. What can countries do to improve statistics for planning, strategic decision-making, monitoring and evaluation? Should countries focus their efforts on improving measurement of a small set of priority indicators?
- Scaling up public sector investments in infrastructure (energy, roads,), health (HIV/AIDS, anti-malaria bed-nets), education (school lunch programmes, abolition of school fees), and agriculture (to reduce hunger) is critical for achieving the MDGs. What specific policies, programmes and projects should countries adopt as the minimal, essential components of a scaled-up agenda? How will these be paid for?
- What set of incentives/policies should Finance Ministers adopt to encourage industrial and agricultural diversification, and scaled-up harnessing of science and technology by the private sector?
- What financing mechanisms should countries consider to increase the provision of the regional infrastructure essential for the regional integration market as identified in the NEPAD Short-term Action Plan for Infrastructure, the management of trans-boundary resources such as water and other regional public goods such as infectious disease control?
- *Improving income equality*

95. As argued in section 3, rising income and asset inequality is a critical challenge to accelerating growth and development in Africa to meet the MDGs. Evidence does show that reduction in inequality is good for growth and development. For example, widespread ownership of land improves equity, productivity, and efficiency. According to Besley (1995) better land rights facilitated investments in Ghana. There is also evidence that the reforms of land ownership in China – the introduction of the household responsibility system which assigned collectively owned land to households – contributed significantly to improvements in average grain yields. However, asset redistribution in general and land reform in particular are often contentious and politically difficult.

Issues for discussion

- Can employee ownership of shares in privatized government firms contribute to the reduction of inequality?

- How feasible is land policy reform in general and land redistribution in Africa and is it critically important for accelerating growth and development in the region?

2. Financing

- *Fostering mobilization of resources from domestic and non-traditional sources*

96. Financing is critical for MDG achievements in Africa. While scaling up ODA and other forms of aid is critical, countries need to intensify domestic resource mobilization efforts. They can do this by reducing the transaction costs associated with using formal financial institutions which hinders the poor from using modern financial institutions. They can also encourage domestic bank financing of major projects through banking sector consolidation. Consolidation would improve the ability of domestic banks to assume greater risks such as infrastructure financing. Countries could also undertake tax policy reforms, among other reasons, to broaden the tax base, reduce tax evasion, and improve tax revenue collection. Non-tax revenue could also play an important role.

97. Private financing and provision³⁴ of essential services such as education and health and infrastructure is also critical. In many countries, private provision and financing of health care is rising. The explosion of global capital markets and the associated expansion of flows to emerging market economies provide opportunities to mobilize substantial additional external capital, both equity and debt-to-finance new infrastructure development. Governments may also explore opportunities to attract the many experienced international developers interested in taking up infrastructure development in developing countries provided the regulatory and policy conditions are right. In many African countries, domestic entrepreneurs are also increasingly keen to participate in the provision of infrastructure services.

Issues for discussion

- What is the scope for public-private partnerships (PPP) and private financing of development projects in Africa? What incentives should Finance Ministers adopt to spur private financing of development projects? How should these be priced to limit their adverse effects on the poor?
- What possible new domestic financing mechanisms (e.g. infrastructure bonds) can countries consider to fund the critical interventions necessary?
- What measures (e.g. banking sector consolidation, mobile banking and micro-finance networks) including incentives (tax and interest rates), should countries adopt to increase the domestic resource mobilization essential for expanding fiscal space?

³⁴ For example, in Nigeria and Ethiopia the private sector is an important provider of education at all levels (Berman et al., 1996, Nwuke, 2005, 2006). Private provision helps to mobilize resources and increase economic efficiency.

3. Governance, institutional innovations, peace and security

- *Broadening the base of domestic actors through incentives for individuals*

98. Subnational jurisdictions (state and local governments), the private sector, and voluntary agencies are crucially important for moving the MDG agenda forward. The matter of sub-national governments is urgent in federal systems such as Nigeria, Cameroon, Ethiopia, and the Sudan and quasi-federal systems such as that of South Africa, because these lower tiers of government can be important agents for driving the MDGs agenda forward³⁵. So far, very little is known of their MDG-related expenditures. In countries with unitary systems of government there have been efforts to decentralize expenditure and the provision of services.

99. Though the evidence on the relationship between decentralization and economic growth is inconclusive, there is nonetheless considerable scope for leveraging decentralization to help achieve the MDGs. Subnational jurisdictions, through their fiscal policies, can be important growth-promotion actors. Getting them to play a more active role in achieving the MDGs – for example through matching grants – could be an important way forward. The same applies to the private sector and other non-governmental entities.

100. Ultimately, the MDGs will be achieved by individuals and private economic actors who take on responsibility for them. Communication for development can help bring the MDG messages directly to households. There is also scope to use social transfers³⁶, including social safety nets, to create incentives for households to adopt behaviour (e.g. hygiene and sanitation practices) consistent with the MDGs. In Egypt, the bread subsidy is said to be a vital anti-poverty programme. Nigeria addresses the energy needs of the poor by subsidizing kerosene. Contributory pension schemes can help minimize old age poverty and health insurance schemes can reduce the cost of catastrophic illnesses on the poor. Ethiopia, for example, recently established the Productive Safety Nets Programme to help over 8 million people with regular cash payments and food as incentive for them to invest in themselves (DFID, 2005). These transfers can be structured in a manner to induce MDG-consistent actions by private sectors. Such actions could include simple hygienic practices, sending the girl-child to school, etc.

Issues for discussion

- What is the scope for fiscal federalism to contribute to accelerating growth and development to meet the MDGs? How can sub-national units be harnessed?
- How can the contribution of the private sector and other non-governmental actors be enhanced?
- What is the scope for social transfer programmes in Africa and what are the possible financing implications?

³⁵ In federal systems, the concurrent list is that of activities that can be undertaken by all tiers of government. This list includes, for example, education, water and sanitation, health, and roads. The exclusive list delineates activities solely reserved for the Federal Government, such as national defense, foreign policy, and monetary policy.

³⁶ By social transfers is meant a programme of government designed to increase consumption possibilities and improve the welfare of the less-well-off in society. These transfers include subsidies and zero-price provision of some essential services, as well as such interventions as immunization, school feeding programmes, free school buses, etc.

- ***Institutional innovations and improving governance and accountability***

101. Institutions, evidence shows, are important for economic growth and poverty reduction. So also is governance and accountability. One way to advance and secure the acceleration of growth and development to meet the MDGs is to create the institutions that can lead the charge, track expenditures, and monitor progress. Nigeria, for example, created an MDG office located in the Office of the President, in order to underscore the high priority the Government attaches to the MDGs. There is evidence that this arrangement is resulting in improved tracking of MDG-related expenditures and better targeting of debt-relief resources to priority MDG-related growth and social sectors.

102. The annual MDG Report (MDGR) and African-owned mechanisms such as the APRM of AU/NEPAD, are helping to draw attention to gaps in economic performance. Twenty-seven³⁷ countries have subscribed to the MDGs although only three have completed their review. While the APRM is encouraging peer learning and needed improvements in governance and accountability, the annual MDGRs are becoming a naming-and-shaming tools for mobilizing national and international action to achieve the MDGs. The combined value of the APRM and the MDGR for galvanizing national and international action could be quite considerable.

Issues for discussion

- What improvements can countries make to improve the effectiveness of institutions for tracking and monitoring MDG-related expenditures?
 - How useful are the APRM and the annual MDGRs for galvanizing public action in support of the MDGs? What more can be done?
 - Given the growing concerns about funding for the APRM process, can the mainstreaming of APRM indicators enhance the credibility of the Mechanism as an important adjunct to achievement of the MDGs?
- ***Using fiscal policy to reinforce efforts to sustain peace and security***

103. The expenditure decisions of governments, especially the spatial distribution of government investment projects and the formula for distributing central governments across different tiers of government and across regions can foment or foster domestic peace and security. If countries do not have equitable spatial distribution policies, conflict could result and hamper efforts to achieve the MDGs. Conflicts limit a country's growth potential. They destroy human and physical capital. In addition, resources that could otherwise have been allocated to growth-promoting sectors and poverty reduction are expended on weapons and in resolving conflicts. Conflicts promote poor governance, reduce/destroy social capital and by generating and heightening uncertainty, limit the possibility for macroeconomic stability.

104. The effects of conflict are not limited to the countries in conflict. Neighbours are also adversely affected as the conflicts in Somalia, the Democratic Republic of Congo, Liberia, Sierra Leone and the Sudan (Darfur) (to name a few) clearly demonstrate. Refugees from countries in conflict impose costs on receiving countries such as congestion in the use of public

³⁷ Sao Tome and Principe is the latest subscriber, having signed on in January 2007.

services and an increase in crime. Conflicts may also spread contagious and infectious diseases such as HIV/AIDS, malaria, and cholera, thus increasing the cost of public health interventions.

Issues for discussion:

- What is the scope for fiscal decentralization (fiscal federalism) in contributing to harmonized efforts to scale up efforts to meet the MDGs?
- Can enhanced transparency and accountability in public sector financial management reduce conflicts, and thus help to create an atmosphere conducive to economic growth and acceleration of progress towards the MDGs?

4. Partnerships, Fulfilling Commitments

- ***International partnerships***

105. International partnership is critical for progress towards the MDGs. However, such partnerships must be effective. In this regard, it is important to make the principles and indicators for aid effectiveness operational, as found in the Paris Declaration of March 2005 on Aid Effectiveness. African countries have met and surpassed their commitments to improve accountability and transparency but many development partners are yet to meet theirs. For example, many countries are yet to reach the 0.7 per cent of GDP to their ODA (0.33 per cent for new EU countries) commitment.

Issues for discussion:

- How can African countries ensure that the principles and indicators of the Paris Declaration are operationalized?
- How can the international community be encouraged to fulfill the commitments made to Africa, including the commitments of 2005³⁸?
- ECA, AU, AfDB, and the RECs are critical for moving the continental agenda forward. What roles should they play in mobilizing international action to scale up interventions to meet the MDGs?

E. Conclusion

106. This issues paper has diagnosed some of the constraints to accelerating growth and development in Africa to meet the MDGs. It has also identified a number of issues for discussion by Ministers, the outcome of which will provide a Plan of Action. However, the precondition for scaling up interventions to accelerate growth and development in Africa in order to achieve the MDGs, is committed leadership and political will - the will to diligently and efficiently implement policies and strategies that are already on the books to find new solutions to perennial and emerging problems and to consider new possibilities. In this regard, the role of the State is highly important. It has the responsibility to ensure that resources are efficiently allocated and to provide funding for anchor investments such as infrastructure development and maintenance. In the final analysis, success in achieving the MDGs depends on a shared national and international ambition, steered by a committed leadership, to improve the life-chances of the most vulnerable in society.

³⁸ See the Outcome Document of the African Ministerial Conference on Financing for Development held in Abuja, Nigeria, May 2006.

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